Baltic Sea Food

BALTIC SEA FOOD PILOTING REPORT

Pilot organization: Cooperative “Taluturg”, Estonia

Partner: The Estonian Chamber of Agriculture and Commerce

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1 Background

In Estonia 2 pilot organizations participated in piloting of B2B local food distribution model. For both pilot organizations, cooperative "Taluturg" and cooperative "Ehtne Saaremaa", the operational plan was prepared in 2019 for launching the B2B distribution model. Current report describes the process and results achieved by cooperative "Taluturg".

Cooperative "Taluturg" ("Farm market") was established in 2010. The original aim of the cooperative is to make the entrance to the market easier to small food producers, who do not have enough capacity for supplying the big retail chains. The cooperative was established on Southern-Estonia, 185 km from Tallinn, the capital of Estonia.

The mission of the company is to simplify for small producers the access to the food market and to offer the widest selection of local farm products, which is made easily available for clients. There are 6 founding members (mainly small local food producers) in the cooperative. At the moment the company/cooperative operates 5 local food shops (1 in Tallinn, 3 in Tartu, 1 in Pärnu). In these shops only products made in Estonia are available. Three shops include also small cafés, where many ingredients used for meals are also provided by local small producers. The product range is very wide, all product categories are available. Food products from ca 350 producers are represented in assortment. In spring 2020 e-shop https://taluturg.ee/e-pood/ was launched for clients. The annual turnover of the organization is ca 1,5 million euros.

Before the project the cooperative did not have much experience in operating in B2B sector. The biggest shop in Tartu is selling food products for restaurants, but there is no special solution for that- the chefs visit the shop and select and buy the products on the spot.

For preparation of the report the in-depth interview was conducted with the manager of the cooperative "Taluturg", Mrs.Merle Vall. Also the representative of another food network, Mr.Andres Soots from Lõuna-Eesti Food Network, was conducted (the information is about this network is available in chapter 6). The online-survey was conducted among main producers supplying the farm shops of cooperative "Taluturg". The results of the survey are included to chapter 4.

2 Description of B2B model used for piloting

The main goal of the piloting for cooperative “Taluturg” was to enter to local food B2B market in Tallinn. Tallinn is the largest city in Estonia, with a population of about 400,000. The city is located by the sea and with its unique old town has always been a tourist attraction. There are many reputable restaurants in the city that would like to use local ingredients. For foreign tourists, Tallinn has been very attractive, the capital of the neighboring country Finland, Helsinki, less than 30 minutes away by air. The ferry connection with the Finnish and Swedish capitals works well. Tallinn is one of the highest rated cruise destinations in the Baltic Sea.

In 05.02.2020 the cooperative “Taluturg” opened local food shop and food hub in Tallinn and according to the initial plan it was planned to use this hub as a base for also serving the business clients (mainly HoReCa sector). Also Tartu HoReCa sector was seen as a target market, although the size of the market is much smaller comparing to Tallinn and the clients are more price-sensitive. The vision was to introduce locally grown products in Tallinn and Tartu HoReCa sector as much as possible, and thereby to increase the sales volumes of small food producers. For achieving this goal, the operational plan was prepared in the framework of Baltic Sea Food project using the support of external business expert.

A week after opening the local food shop and food hub in Tallinn, the emergency situation was declared by Estonian government because of Covid-19 pandemia. For 2 months the shopping centers were closed and restaurants and caffees served only take-away clients. The demand for food products in HoReCa sector disappeared overnight. In summer the restaurants and caffees opened their doors again for clients, but because of the lack of tourists the catering business was still very low comparing to previous years. Still there was some optimism in the market, so the cooperative “Taluturg” started preparations and prepared new contact list of restaurants, who were open and could be interested in local food products. Unfortunately in September 2020 the second wave of Covid-19 arrived to Estonia, so many catering places in Tallinn and Tartu closed their doors and those who still operate, are not ready to start cooperation with new supplier because of the high level of uncertainty in the market. It means that the demand for local food products in HoReCa sector remains to be very low and it will not improve before the tourism sector starts to recover, which probably takes some years.

As a result of this situation cooperative "Taluturg" decided to postpone the implementation of the operational plan to the future, when the demand of the market is sufficient for launching the B2B business model. In order to save costs cooperative terminated the rental agreement of the rooms in Tallinn planned for food hub, where the packaging and assembly of deliveries for business clients should have taken place. The cooperative continues to operate in B2C market in 5 shops. Also the e-shop, which was launched as the reaction to Covid-19 pandemia, is now very important sales channel for the cooperative, as a result of the pandemia the interest towards local food products (especially using the e-shopping opportunity) among end customers increased significantly.

The cooperative still has good prerequisites for entering to B2B market in the future using following resources:

1) Wide network of loyal and reliable producers
2) Long-term cooperation experience with producers in organizing the logistics of food products
3) Widest assortment of products among local food distributors in Estonia
4) 3 big and well-organized shops in Tallinn, Tartu and Pärnu, which can be used as a base/food hub for combining the B2C and B2B solution in the future
5) E-shop, which simplifies the ordering also for potential business clients
6) Well-known brand "Taluturg"
7) Good contacts with chefs, who continue shopping in cooperative shop in Tartu

Because of abovementioned reasons it is not possible to describe in this report the B2B business model, as it was not possible to implement it as planned. In this chapter the main content of the Canvas blocks as planned to implement according to the operational plan are shortly described.

2.1 Customer segments and target groups

The main B2B customer segments were planned as following- (in order of the priority):

- HoReCa (hotels, restaurants, cafes) in Tallinn (and Tartu)
- Catering businesses
- Retail chains
- Public catering (schools/kindergardens, hospitals, senior homes etc)

2.2 Customer value proposition

- One distributor replacing many small producers
- One e-shop platform for convenient and quick ordering
- High quality local food- fresh, exclusive, tasty, wide assortment
- Supporting rural development and entrepreneurship and local traditions
- Strong and interesting stories of producers from rural areas are used in marketing in order to create attention among customers

2.3 Channels to reach the customers

- Phone for first contact and for special offers, after-sales support
- Regular personal contacts
- E-shop for regular orders- should be no.1 sales channel
- E-mails for delivering bigger amount of info, useful before first visit of phone call
- Advertising for promoting the cooperative and brand, mainly in social media
- Business cards for disseminating contact info during events

2.4 Customer relationships

- For promotion and marketing regular mini-fairs will be arranged each year
- Degustation's of new products
- Study visits to farms for chefs
- Regular contact events for chefs and producers, incl. practical workshops demonstrating the ideas for using local ingredients in cooking and for highlighting the producers in menus
- Cooperation with local action groups in South-Estonia region
- Developing loyalty programme
- Regular feedback from producers for identifying the problems

2.5 Revenue streams

The main revenues come from deliveries of food products to business clients and from giving higher value to products in cooperative's own cafés. The average mark-up is 30-40%, which covers the costs of marketing, incoming logistics (from main food hub in Tartu to Tallinn) and assembly. The transportation cost from food hub to clients will be added on top based on real costs. In case of bigger orders, the discounts will be offered to business clients.

2.6 Key resources

- Large network of producers as reliable partners
- Network of head chefs and restaurants
- Own cafés are used for tastings and other events
- Own shops enable to maintain stable stock and to optimize the logistics costs, introducing the products on the spot to potential clients
- E-shop for ordering
- Brand "Taluturg"
- Storage room/food hub for assembly and packaging
- Committed staff members

2.7 Key activities

The value chain includes all important parts:

- Assortment of products (volumes, demand, seasonality, quality etc)
- Marketing and sales (brand, logo, customer segments, stories, additional value etc)
- Incoming logistic (ordering, packaging, transport etc)
- Inside logistic (intake of products, storage, assembly etc)
- Distribution to clients (orders, routes, delivery, invoicing etc)
- Customer support (delivery control, quality control, efficiency, communication, return of products etc)
- Quality evaluation (feedback, control, identification of deviations, learning and improvements)

All these elements of value chain are supported by the infrastructure (digital, physical), human resources (HMR, recruitment, improvement of skills) and strategy (strategic management, projects, innovation, economy/budget/accounting).

2.8 Key partnership

- Governmental organizations, sectoral associations
- Local communities, local action groups (Leader)
- Owners of the cooperative/members
- Organizations providing sources for funding (credit, guarantees)
- Other local food networks
- Logistic companies

2.9 Cost structure

- Cost of goods (costs are purchased from producers)
- Marketing costs
- Costs of premises
- Transportation costs
- IT and communication costs
- Staff costs
- Taxes
- Other costs

2.10 Organization and strategy

Organization continues to operate as a cooperative, there are no plans to change the organizational model. Main aspects of the strategy based on SWOT-analyses:

1) Strengths/Opportunities strategy: Good experience and existing networks must be used in reacting to the opportunities; Increasing demand to local and organic products; Flexibility of smaller food supplier enables quicker innovation- better competitiveness comparing to bigger suppliers.

2) Strengths/Threats strategy: Smaller supplier can adapt better in dynamic business environment; End customers value more local food as ingredients for HoReCa sector; Small producers can be more flexible in meeting the special requests of HoReCa sector
3) Weaknesses/Opportunities strategy: Specialization to more profitable segments (organic etc); Educating customers; Contacting new catering places, increasing the number of customers in the city in order to save from logistics
4) Weaknesses/Threats strategy: Exchange of information, learning from other producers; New market segments (organic etc); Capacity improvement of producers in order to minimize the risks caused by extreme weather conditions

3 Changes in operational plan

As a result of the situation caused by the Covid-19 pandemia the cooperative “Taluturg” decided to postpone the implementation of the operational plan to the future, when the demand of the market is sufficient for launching the B2B business model.

4 Quantitative results

As cooperative “Taluturg” was not a able to pilot the business model as planned in operational model, then it is not possible to demonstrate any quantitative results related to the clients, transactions and sales. Also therefore was not possible to evaluate the satisfaction of the clients, producers and distributors with the B2B solution.

It was decided that local producers, who are involved to B2C solution and are supplying the food shops operated by the cooperative on regular bases, will be asked to evaluate the current B2C distribution solution, as many elements in value chain are similar for the producers in B2B and B2C solution. In total 13 local producers conducted the evaluation and the results are following:

4.8. Satisfaction of producers involved to distribution system (in 1-6 scale):				Number of answers: 13			
	1 (Very low)	2	3	4	5	6 (Very good)	Average
Communication with distributor					5	8	5,62
Ordering solution			2	2	5	4	4,85
Logistic solution				1	8	4	5,23
Sales results			1	2	6	4	5
Price level of distribution service				2	6	3	5,09

General satisfaction with the cooperation with distributor				2	6	5	5,23

The manager of the cooperative “Taluturg”, Mrs. Merle Vall, also evaluated their B2C distribution solution as following:

4.10.Satisfaction of distributors with the distribution system(in 1-6 scale)				Number of answers: 1			
	1 (Very low)	2	3	4	5	6 (Very good)	Average
Communication to clients				1			4
Communication to producers					1		5
Ordering solution					1		5
Incoming logistics			1				3
Storage and packaging of products					1		5
Delivery of products to clients							N/A
Variety of products						1	6
Sales results				1			4
General satisfaction with distribution solution					1		5

5 Qualitative results

As the piloting of B2B did not take place, then it was not possible to gather data about new skills and cooperation partners and main challenges and problems during piloting. Although the producers, who belong to the network, highlighted some examples of good experience as following:

- The mission and enthusiasm of the distributor in promoting local food
- Arrangement of promotional events/mini-fairs where small producers can get more attention
- Friendly cooperation and communication with the staff of the cooperative, who work in farm shops
- Additional sales through the farm shops of the cooperative
- Joint visits to foreign countries for learning of the experience from other food networks.

As described in chapter 2, the cooperative “Taluturg” is ready to implement the business model in the future, as soon as the demand for local food products recovers in HoReCa sector in Tallinn and Tartu. It can happen only after the recovery of tourism sector and it can take some years.

The main benefits from participation of the project for the cooperative “Taluturg” are:

- Development of the operational plan in professional level using the support of business expert, incl. the market research. It was the first experience for the cooperative in planning new operations in such detail level, incl. financial planning.
- Study visit to Sweden and Denmark, which was organized by the project in 2018. It was very useful to see the real experience of the B2B model targeted to HoReCa sector.
- Learning from the experiences of other countries and food networks in piloting of B2B model- how they reacted to the Covid-19 pandemia and which innovative solutions were developed.

6 Other local food distribution solutions developed in the region

Although the cooperative "Taluturg" in Southern Estonia did not manage to pilot B2B model during the project period, the project team managed to map two well-functioning B2B and B2C business models in Estonia.

1) **South-Estonia Food Network**

   This network is already implementing similar B2B solution, which was planned in operational plan of cooperative "Taluturg", just the main client group is different (retail chains). Therefore partners decided to gather more information from this network and they were ready to share detailed information about their operations, incl. data about the sales and transactions.

   South-Estonia Food Network is a farmer cooperative, which was established in 2008. It has ca 30 members, who are all local food producers. The network focused from very beginning to business clients. Main client groups are retail chains (ca 95% from turnover) and HoReCa sector (ca 5% from turnover). Recently food network launched new online-platform (designed specially for their needs), which enables to serve also individual customers as B2C solution. The local producers in the network are located in South-Estonian area. The core of the assortment are fresh and processed vegetables and fruits. Other product groups are dairy (mainly cheese), eggs, products made from mushrooms and wild berries, non-alcoholic drinks, herbs and cereal products. Most of the products in assortment are organic. The main sale channel is the e-platform (ca 2/3 from all orders), where the producers publish their available products and prices. The clients select the products from the platform and based on their orders the networks staff handle the orders and compile the transportation routes (both incoming and outgoing). The network has its own vehicles and drivers, who gather the products from rural areas in South-Estonia from pre-agreed pick-up points 3 times per week. Those farmers, who are locating near Tallinn or Tartu, take their products to the warehouse of the logistics partner to the city themselves. In the warehouse in Tartu the assembly of the products takes place, and the logistic partner delivers the orders to the clients (mainly retail shops) all over Estonia. In total ca 40 producers are involved to the network, but ca 20 offer products regularly every week and ca 20 of them provide products only during the summer-autumn season (fresh products). The network has a transparent pricing model, all producers are treated equally. The mark-up to producer's price is the same for every product, which covers the costs of incoming logistics, sales, marketing, storage and assembly, online-platform and outgoing logistics. Also the payment terms are the same for all producers. The cooperative has 3 staff members- sales manager and 2 drivers for incoming logistics. The network has good reputation as reliable and professional distributor of organic food products, who has strong and wide network of small organic farms from South-Estonia. The main value what they offer for retail chains and shops, is time efficiency – the distributor takes care of orders from individual farmers, labelling, assembly, quality, transportation etc. Shop managers do not need to spend time for communication with each farmer separately. For producers the main value is efficient marketing/sales, so the small producers have the access to the retail chains and there is an efficient logistics solution. Alone they do not have enough capacity for that.

The cooperative has not big plans for expanding the client base, as there is not big potential for increasing the volume of products, as the producers in the network are rather small or medium from their volumes. In the future there is a need for their own warehouse, where the assembly of the orders can be organized more efficiently. Producers need the facilities for storage the products all year around, they should cooperate in that as it is a big investment. The cooperation with producers has improved a lot, they understand better the requirements of the clients. Also the demand for organic premium quality food products has increased among the end customers, which motivates retail chains to continue the cooperation with the network. In the future HoReCa sector could be more important as client group, but it requires higher demand among restaurants and cafes for organic ingredients (which is more expensive than non-organic products). Also the municipalities (schools, kindergartens etc) are becoming more interested in using organic products in their kitchens.

2) **Farm-market "Talust koju" ("From farm to home")**

As a reaction to the Covid-19 pandemia in spring 2020, when the restaurants and cafes were mainly closed, the owners of few TOP-restaurants in Tallinn launched the e-platform and logistic solution for delivering high-quality local food products and some pre-prepared meals for the end customers in Tallinn and it's surrounding area. There are ca 30 small food producers in the network, who deliver their products. The heart of the solution is the e-platform www.talustkoju.ee, where clients can order the products and make the payment. The distributor (company "Talust Koju") makes purchases from farmers, assembles the orders and these are delivered to the clients twice a week (Tuesday and Friday) in cooperation with logistic partner. In e-platform the distributor is also publishing the recipes, how the products can be used by clients, when they prepare the meals at home. There is also separate section in the website promoting each farm and their products. Short supply chain and giving higher value to local food products are the main elements of the corporate social responsibility strategy of the company. In the future the company is planning to expand their operations to other cities in Estonia. Also, they are planning to enlarge the assortment with products categories from other countries, which are not available in Estonia.

7 Conclusions

The pilot organization, cooperative "Taluturg", values highly the new experience and skills, which they received from participation in Baltic Sea Food project. They have already long experience in sales of local food products in their farm shops (B2C model) and wide network of local producers, which is a good basis for launching the B2B model in the future. The knowledge received from preparation of financial part of the operational plan is that during the first phase of launching the B2B model it is recommended to outsource the storage and transportation service. These elements in value chain require large-scale investments, which can be difficult to implement in the beginning, when the number of clients and cash flows are smaller. The operational plan should be reviewed and adapted according to the real situation in HoReCa market and tourism sector after Covid-19 pandemia, as there will be significant changes in business environment, which has huge impact to the demand for local food products.